

Message Text

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14-11

ACTION EA-10

INFO OCT-01 EUR-12 NEA-09 ISO-00 TRSE-00 EB-07 SP-02

AID-05 NSC-05 CIEP-01 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 7176

INFO AMCONSUL HONG KONG

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMCONSUL MEDAN

AMEMBASSY PARIS

AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

AMEMBASSY TOKYO

C O N F I D E N T I A L JAKARTA 3454

HONG KONG FOR TREASURY REPRESENTATIVE

EO 11652: GDS

TAGS: EFIN ENRG EALR ID

SUBJ: GOI/PERTAMINA FINANCIAL DIFFICULTIES

REF: A. JAKARTA 3195 B. JAKARTA 3328 C. EAL

1. SUMMARY: PRESIDENT SUHARTO, GOI AND PERTAMINA
OFFICIALS CONTINUE INTENSIVE EFFORTS TO RESOLVE
FINANCIAL AND PROJECT PROBLEMS CREATED BY PERTAMINA
BORROWINGS. MERCHANT BANK ADVISORS ARE WORKING WITH
GOI TO ESTIMATE IMPLICATIONS OF ITS PAYING OFF SOME
\$900-1,300 MILLION OF SHORT-TERM FOREIGN DEBTS AND
TO ARRANGE SOME \$800 MILLION OR MORE IN INTERNATIONAL
COMMERICAL BORROWINGS TO SOFTEN IMPACT OF DEBT RE-
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PAYMENTS. GOI PLANS REVIEW PERTAMINA PROJECTS, WITH

KRAKATAU STEEL PROJECT PRIME CANDIDATE FOR SIGNIFICANT MODIFICATIONS. END SUMMARY.

2. PRESIDENT, GOI AND PERTAMINA OFFICIALS CONTINUE INTENSIVE ATTENTION TO GOI/PERTAMINA FINANCIAL DIFFICULTIES. IN MEETINGS WITH ECONOMIC MINISTERS EARLIER THIS WEEK, PRESIDENT SUHARTO INSTRUCTED THAT RESEARCH MINISTER SUMITRO BE INVOLVED CLOSELY IN REVIEW OF FINANCIAL AND PROJECT DECISIONS STEMMING FROM CURRENT FINANCIAL STRINGENCIES. PRESIDENT SUHARTO ALSO ISSUED MANDATE TO ECONOMIC MINISTERS TO CRITIQUE ALL MAJOR PROJECTS INVOLVING PERTAMINA AND RECOMMEND WHICH SHOULD BE SCRUBBED, RENEGOTIATED OR MODIFIED. (WE HAVE ALSO HEARD GOI IS CONSIDERING ESTABLISHMENT OF INDEPENDENT AGENCY, POSSIBLY HEADED BY IR WIJARSO, GOI DIRECTOR FOR OIL AND GAS (MIGAS), TO REVIEW PERTAMINA'S PROJECTS).

3. THREE MERCHANT BANKS NOW ADVISING BANK INDONESIA (BI), HEADED BY WARBURG OF LONDON, GAVE GOI PRELIMINARY ESTIMATE OF \$900 MILLION IN PERTAMINA RELATED DEBTS TO BE PAID OFF BEFORE END FY 1975 (MARCH 31, 1976). THEY RECOMMEND BI EFFORT TO BORROW \$400 MILLION 3-6 YEAR MONEY IN INTERNATIONAL MARKETS IN APRIL/MAY, \$200 MILLION SEPTEMBER AND \$200 MILLION JANUARY 1976. THEY ESTIMATE THESE BORROWINGS WOULD PERMIT \$1.3 BILLION FX RESERVE LEVEL BY END MARCH 1976. (FYI--PROTECT--MORGAN GUARANTY SELECTED AS LEAD BANK FOR APRIL/MAY BORROWING EFFORT.)

4. FROM OUR INFORMATION MISSION CONVINCED \$900 MILLION DEBT ESTIMATE AT LEAST \$400 MILLION TOO LOW. WE ESTIMATE IF GOI PAYS OFF ALL PERTAMINA DEBTS DUE AND BORROWS \$800 MILLION, END MARCH 1976 FX RESERVES LIKELY TO HIT \$900 MILLION OR LESS.

5. MERCHANT BANK ADVISORS ESTIMATE GOI HAS 50:50 CHANCE OF ARRANGING \$100 MILLION OR MORE OF PLANNED CONFIDENTIAL

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\$800 MILLION FROM JAPANESE COMMERCIAL BANKS, BUT ONLY WITH GOJ BLESSING. THEY RECOMMEND TO BI GOVERNOR THAT HE VISIT JAPAN SOON TO ENLIST GOJ SUPPORT. THEY ALSO BELIEVE SIGNIFICANT OPPORTUNITY FOR SAUDI ARABIAN CREDITS EXIST, BUT ONLY IF ARRANGED AT HIGHEST LEVEL. THEY RECOMMENDED TO BI THAT, IF POSSIBLE, PRESIDENT SUHARTO VISIT SAUDI ARABIA IN NEAR FUTURE WITH SPECIFIC PROJECT PROPOSALS

IN HAND.

6. ADVISORS TOLD BI THAT KRAKATAU STEEL PROJECT REQUIREMENTS AS NOW SCHEDULED QUOTE GRAVELY AFFECT AVAILABILITY OF FINANCE FOR ESSENTIAL NEEDS AND/OR LEVEL OF RESERVES UNQUOTE. THEY RECOMMEND IMMEDIATE NOTICE TO MAIN CONTRACTORS THAT RECONSIDERATION OF CONTRACT EFFECTS NECESSARY. ADVISORS OFFERED TO ASSIST ANY RENEGOTIATION OR REFINANCING PROCESS.

7. IN CONNECTION WITH CLARIFYING PERTAMINA FINANCIAL PICTURE, GENERAL IBNU HAS AUTHORIZED INCREASE IN ARTHUR YOUNG CONTINGENT WHICH HAS BEEN WORKING WITH PERTAMINA FOR ABOUT 1 1/2 YEARS AND HAS INSTRUCTED THAT 1974 FINANCIAL DOCUMENTS (BALANCE SHEET, PROFIT/LOSS STATEMENT) BE COMPLETED BY JUNE 1975. HE HAS ALSO INSTRUCTED THAT FULLY AUDITED 1975 FINANCIALS BE READY IN JUNE 1976.

8. COMMENT: PRESIDENT'S MANDATE FOR CRITICAL REVIEW AND RECOMMENDATIONS ON PERTAMINA PROJECTS INVOLVEMENTS PRESENTS OPPORTUNITY FOR GOI ECONOMIC MINISTERS TO IMPROVE COORDINATION OF OVER-ALL INDONESIAN DEVELOPMENT EFFORT, HOWEVER, THEY ARE THINLY AND POORLY STAFFED TO TAKE ON THIS FUNCTION ON TOP OF MAJOR PREOCCUPATIONS WITH IGGI PREPARATIONS AND INTERNAIONAL BORROWING PLANS. WORLD BANK NOW URGING ECONOMIC MINISTERS TO HIRE EXTENSIVE OUTSIDE EXPERTISE TO ASSIST THEM IN THESE TASKS.
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